

City of Detroit


CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: October 8, 2007

RE: Budget Department Quarterly Financial Report for the Period
Ending June 30, 2007

Introduction

On August 30, 2007 the Budget Department submitted to your Honorable Body the Quarterly Financial Report for the period ending June 30, 2007 as required by court order. Attachment I is a copy of this report.

The Quarterly Financial Report is limited in scope as defined by the court order to five major revenue sources and seven departments. The five major revenues sources represent approximately 54.4% of the 2006-07 adopted General Fund budget, and the seven departments represent 58.1% of the total General Fund appropriations included in the adopted budget.

As stated in the cover letter from the budget director they "do not have adequate data in other accounts to conclude that there will be a change in the estimated deficit of \$88,622,889".

The Fiscal Analysis Division has updated the June 30, 2007 figures on an expanded quarterly financial report format with information in the financial reporting system as of mid to late September, as Attachment II.

Estimated Deficit for FY 2006-07

In addition, the Fiscal Analysis Division has also reviewed the financial reporting system data for the entire General Fund. In making the first projection on where the 2006-07 fiscal year ended, the data from the system was adjusted for the prior year's deficit appropriation, and adjustments for special purpose appropriations are included. From our analysis, the current projection on how fiscal 2006-07 will end operationally is a \$67.8 million deficit. This is the combination of \$30.1 million appropriation deficit and a \$37.7 million revenue shortfall.

Estimated Accumulated Deficit as of June 30, 2007

At this point the estimated accumulated General Fund deficit as of June 30, 2006 is \$159.2 million. Adding my estimate of \$67.8 million for the operating results for fiscal 2006-07 the accumulated deficit through June 30, 2007 would increase to \$227 million. However, applying the amount budgeted in the 2006-07 budget for the prior year's deficit of \$67.1 million, results in a projected accumulated deficit as of June 30, 2007 of \$159.9 million, a net increase of \$700,000 in the accumulated deficit from June 2006 to June 2007.

It is important to note, that this small increase in the accumulated deficit resulted because of a prior year's deficit appropriation of \$67.1 million being included in the 2006-07 budget. In fact, if this appropriation were not included in the 2006-07 budget, the accumulated deficit would have increased by the \$67.8 million operating deficit projected as of June 30, 2007. If overspending of other appropriations had not offset the prior year's deficit appropriation, the accumulated deficit would have been reduced by \$67.1 million, and could have been as low as \$92.1 million.

Another way to express this is, the prior year's deficit appropriation offset the over expenditure of other appropriations during the 2006-07 fiscal year. The prior year's deficit appropriation was not used for the intended purpose of reducing the accumulated deficit, but rather to cover overspending of current 2006-07 fiscal year appropriations.

Impact of Delay of CAFR as of June 30, 2006

Before proceeding and locking in on the above estimated numbers there are a few issues that need to be recognized. Normally at this point, 3 months after the close of the fiscal year, the prior year's Comprehensive Annual Financial Report (CAFR) has been issued. The issuing of the CAFR certifies the accumulated deficit that legally should be appropriated in the next annual budget, and accurately defines the starting point for the fiscal year. For this analysis, the lack of a CAFR will not affect the 2006-07 operating results, but any change will affect the accumulated deficit that must be addressed in the current year budget. Thus rather than dealing in two fiscal periods and their results, we are currently faced with dealing with three fiscal periods, three years of budget amounts, three years of actual expenditures and revenues, and three years of projections all playing a part in the overall analysis.

This delay in finalization of the CAFR creates a cascading effect in reporting, and results in a reduction in time to address the accumulated deficit, and actually appears as a strategy by the administration to ignore addressing the accumulated deficit.

Preliminary Outlook on the CAFR as of June 30, 2007

I believe that a number of closing or adjusting entries that normally would have been made at this point for the 2006-07 fiscal period may not yet be processed as the resources in the Finance and other agencies and are likely concentrating on the completion of the 2005-06 CAFR.

While I am confident in my analysis, caution should be used before reacting to the resultant figures. I believe my analysis accurately depicts the trend or direction that will be reflected when the final 2006-07 statements and CAFR are produced, however the exact final numbers remain open to a greater number of adjustments than would normally be completed at this point in time.

Specific areas where I have concerns that adjustments may remain to be made that could result in significant changes to the 2006-07 operating results include the Risk Management Fund; Income Tax, Property Tax and Solid Waste Fee collections or reserve adjustments; benefit and pension account adjustments; and General Fund requirements of other funds, such as Department of Transportation, Airport, and Parking funds.

Fiscal's Basis for Initial Accumulated Deficit Estimate

During the development of the 2007-08 budget, Council will recall that the Fiscal Section and Budget Department's estimates of the accumulated deficit as of June 30, 2007, which is the prior year deficit going into 2007-08, differed by nearly \$100 million-Budget's: \$31 million and Fiscal's: \$134 million. The following table summarizes the differences in the surplus/deficit projections as of March 31, 2007.

Table I Surplus/(Deficit) Comparison as of March 31, 2007 (In Millions of Dollars)			
	Per Budget	Per Fiscal Analysis Division	Difference
June 30, 2006 CAFR Accumulated Deficit (estimated)	\$(155.0)	\$(159.1)	\$4.1
FY 2006-07 Revenue Surplus/Deficit	\$60.2 ⁽¹⁾	\$(111.6)	\$(171.8)
FY 2006-07 Appropriation Surplus/Deficit excluding accumulated deficit	\$(2.8)	\$70.0	\$72.8
Fiscal 2006-07 Operating Results, excluding prior year accumulated deficit appropriation	\$57.4	(41.6)	\$99.0
2006-07 Appropriation for Prior Year Deficit	\$67.0	67.0	\$ 0.0
Projected June 30, 2007 Accumulated Deficit	\$(30.6)	\$(133.7)	\$(103.1)

- (1) Included \$58.0 million of revenue from a sale/lease of the Detroit Windsor Tunnel proposal. During budget development, City Council did not agree, and rightly, that this revenue source should be included in the 2006-07 fiscal period. This resulted in increasing the accumulated deficit-funding requirement in the 2007-08 budget. To maintain a balanced budget in 2007-08 City Council included the sale of budget stabilization bonds as the

revenue source to fund the increased deficit. The 2007-08 budget includes \$88,622,889 to fund the accumulated deficit as of June 30, 2007.

Fiscal's Basis for Current Accumulated Deficit Estimate at June 30, 2007

Taking the Tunnel deal out of the mix, back in March, we were more conservative in our revenue estimates and cautiously more optimistic on the appropriation side than the administration.

At this point in time, it appears that the \$133.7 million accumulated deficit estimate is now closer to **\$159.9 million**.

The table below summarizes what was reflected in the financial reporting system for June 30, 2007 as of mid to late September 2007.

<i>(in Millions of Dollars)</i>	June 30, 2007 as of Mid Sept.
Municipal Income Tax	\$6.2
State Revenue Sharing	\$(11.5)
Property Taxes	\$12.4
Casino Wagering Taxes	\$(5.2)
Solid Waste Fees	\$6.4
Utility User's Tax	\$(0.7)
Sale of Property	\$(2.4)
All Other Revenue	\$(42.9)
Revenue Total	\$(37.7)
Appropriations adjusted for Prior Year's Deficit, Special Appropriations	\$(30.1)
2006-07 Net Surplus/Deficit as reported in financial system	\$(67.8)
2006-07 Prior Year Deficit Appropriation	\$67.1
Un-audited 2005-06 Accumulated Deficit	\$(159.2)
Potential Accumulated Deficit @ June 30, 2007	\$(159.9)

The above table does not include DOT, Airport, Parking or any other funds that may require an adjustment resulting in additional general fund expense.

REVENUE HISTORY

Municipal Income Tax – As currently reflected in the accounting system, income tax collections including prior years' collections and net of refunds is \$277.6 million. Compared to a budget of \$271.4 million a \$6.2 million surplus is reported. Up tick in taxes from buyouts helps create surplus.

Fiscal Year	Collections	Change	Year to Year
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	(in million)	(in million)	Percentage Change
2004-05	\$282.5		
2005-06	284.1	\$1.6	0.5%
2006-07	277.6	\$(6.5)	(2.3)%

State Revenue Sharing – Total collections of State Revenue sharing are currently reported as \$271.1 million, \$63.4 million from constitutional required, and \$207.6 statutorily required. Compared to the budget of \$282.6, an \$11.5 million deficit results.

Fiscal Year	Collections (in million)	Change (in million)	Year to Year Percentage Change
2004-05	\$282.6		
2005-06	279.5	\$(3.1)	(1.1)%
2006-07	271.1	\$(8.4)	(3.0)%

Property Taxes - Collection of property taxes are recorded as \$180.8 million and compared to the budget amount of \$168.5, a \$12.4 million surplus exists. Collection of delinquent property taxes from Wayne County could help explain the surplus.

Fiscal Year	Collections (in million)	Change (in million)	Year to Year Percentage Change
2004-05	\$171.8		
2005-06	185.9	\$14.1	8.2%
2006-07	180.8	\$(5.0)	(2.6)%

Casino Wagering Tax – Currently the Wagering Tax collections are reported as \$179.7 million compared to a budget of \$184.9 million. This represents a \$5.2 million deficit. It appears Windsor's smoking ban didn't attract more Detroit gamers, and Greektown's casino permanent construction process contributed to the deficit.

Fiscal Year	Collections (in million)	Change (in million)	Year to Year Percentage Change
2004-05	\$137.9		
2005-06	150.1	\$12.2	0.5%
2006-07	179.7	\$(29.6)	(19.7)%

Solid Waste Fee – Collection of the first year Solid Waste Fee is reported as \$74.2 million and compared to the budget of \$67.8 million, the \$6.4 surplus results. This figure potentially may be adjusted downward to create a reserve for fees that will not be collected from properties with amounts due that the Wayne County Treasurer has sold bonds to allow.

Utility User's Tax – The reported collections in the financial system show \$55.3 million, compared to the budget amount of \$56.0, represent a \$.7 million deficit.

Fiscal Year	Collections	Change	Year to Year
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	(in million)	(in million)	Percentage Change
2004-05	\$52.9		
2005-06	60.0	\$7.1	13.4%
2006-07	55.3	\$(4.7)	(7.8)%

Sale of Property – The budget anticipated \$30 million in sales and collections currently recorded are \$27.6 million. As stated this is a \$2.4 million deficit.

Fiscal Year	Collections (in million)	Change (in million)	Year to Year Percentage Change
2004-05	\$6.0		
2005-06	8.9	\$2.9	48.3%
2006-07	27.6	\$18.7	210.1%

All Other Revenues – Collections of all other revenues, not included above, currently is reported as \$356.2 million against a \$399.1 million budget, for a \$42.9 million deficit. The budgeting and collection of other revenues has been the center of difference between the Fiscal Analysis Division and the administration.

Fiscal Year	Collections (in million)	Change (in million)	Year to Year Percentage Change
2004-05	\$481.5		
2005-06	402.3	\$(79.2)	(16.4)%
2006-07	356.2	(46.1)	(11.5)%

APPROPRIATIONS

On the appropriation side, our March estimate is proving to be considerably off the mark. Our estimate was based on May 31, 2007 expenditures recorded in the financial reporting system, projected to remain constant through June. Looking at the year ending results now, this estimate appears to have been very optimistic.

Specifically, we estimated a \$70 million surplus in appropriation for 2006-07 in March; we now estimate the surplus at \$30.1 million from our latest analysis based on spending levels. As future projections are made, we will certainly take these results into consideration.

Generally we have seen a relatively flat pattern to expenditure levels on a monthly basis, however, these results appear to deviate from the historical pattern. At this point, my assumption is that due to cash flow problems, and the large amount of short term borrowing in the form of revenue and tax anticipation notes that took place late in the fiscal year, some expenditure items may have been delayed. I will continue to review what took place and either validate this assumption or discover other possible explanations.

LOOKING TO THE 2007-08 FISCAL YEAR

Should the above projection of a \$159.9 accumulated deficit prove to be accurate, Council must be aware that the 2007-08 Budget appropriation for the Prior Years' Deficit is \$88.6 million. This means that three months of the current fiscal year have already passed, and there is already a \$71.3 million problem. And the assumption is that for all other appropriations, expenditures will not exceed the budget. Also, all budget revenues must result in actual collections.

Council is aware that the 2007-08 budget includes an estimated revenue in the amount of \$58 million from the sale of fiscal stabilization bonds, in lieu of the administration's proposal for a financial transaction concerning the Detroit Windsor Tunnel. Should a transaction concerning the Tunnel take place, but only in the area of the budgeted \$58 million, fiscal stabilization bonds may remain an alternative to address the \$71.3 million problem outlined above.

In summary the financial challenges facing the City have not gone away. The recognition of an accumulated deficit along with addressing the deficit in the budget may have combined to reduce the growth of the overall deficit. However, the lack of expenditure control, or remaining within authorized appropriation levels, has prevented the accumulated deficit from being reduced. On the revenue side, the budget must be built on realistic estimated revenue amounts, and an aggressive approach must be taken by the administration to ensure collection of the budget amounts. At this point revenue shortfalls appear to represent about half of the operating deficit projected for the 2006-07 fiscal period.

As always, I would appreciate any feedback from the administration on my analysis, additional information, or data to improve my projections. Also any areas where I may have missed significant items that may affect the accumulated deficit along with data to support the items. I hope this analysis assist the Council in their efforts to address the financial challenges facing the city, and welcome your questions and comments.

CITY OF DETROIT
BUDGET DEPARTMENT

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August 30, 2007

Honorable City Council;

RE: QUARTERLY FINANCIAL REPORT

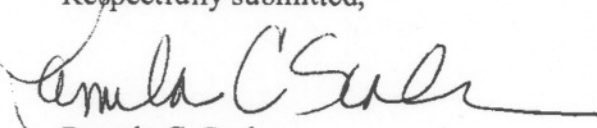
Attached please find the quarterly financial report for the period ending June 30, 2007.

At this point, we are currently in the process of validating preliminary accounting statements, evaluating requests for Balance Forwards and working diligently to determine the need for year end adjustments to agency closing statements.

As is routine at this time of the year, we do not have adequate data in other accounts to conclude that there will be a change in the estimated deficit of \$88,622,889.

Upon completion of validating the accounting statements for FY 2006-07, we will forward the results to your Honorable Body.

Respectfully submitted,


Pamela C. Scales
Budget Director

Attachment

cc: Kwame M. Kilpatrick, Mayor
Anthony Adams, Deputy Mayor
Roger Short, Chief Financial Officer
Kandia Milton, City Council Liaison

DETROIT
CITY CLERK

2007 SEP -5 P 2:10

PART I
GENERAL FUND
MAJOR SOURCES OF REVENUE AND ESTIMATED SURPLUS/(DEFICIT)
As of June 30, 2007

	Total Annual Budget	Amount Collected through 06/30/07	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Remaining Annual Budget	% Collected to Date		Estimated Year End Surplus/(Deficit) Manually Computed
						Current Year	Prior Year	
Municipal Income Tax	\$271,405,000	\$277,709,988	\$6,304,988	2.32%	(\$6,304,988)	102.32%	105.79%	\$7,000,000
Current Year Property Tax	173,959,033	180,873,962	6,914,929	3.98%	(6,914,929)	103.98%	100.04%	7,000,000
Utility Users' Tax	56,000,000	55,263,176	(736,824)	-1.32%	736,824	98.68%	109.05%	4,000,000
Total	\$501,364,033	\$513,847,126	\$12,483,093	2.49%	(\$12,483,093)	102.49%	104.08%	\$18,000,000
State Equity Package								
Zoo	\$0	\$327,094	\$327,094	0.00%	(\$327,094)	0.00%	26.01%	\$327,094
Historical	0	0	0	0.00%	0	0.00%	41.54%	0
Total	\$0	\$327,094	\$327,094	0.00%	(\$327,094)	0.00%	38.36%	\$327,094
State Revenue Sharing								
Sales Tax - Constitutional	\$66,000,000	\$63,697,176	(\$2,302,824)	-3.49%	\$2,302,824	96.51%	96.79%	(\$2,302,824)
Sales Tax - Statutory	216,559,208	208,132,295	(8,426,913)	-3.89%	8,426,913	96.11%	99.09%	(8,426,913)
Total	\$282,559,208	\$271,829,471	(\$10,729,737)	-3.80%	\$10,729,737	96.20%	98.55%	(\$10,729,737)
Grand Total	\$783,923,241	\$786,003,691	\$2,080,450	0.27%	(\$2,080,450)	100.27%	102.06%	\$7,597,357

PART II
GENERAL FUND APPROPRIATIONS
(including fringe benefits)
ESTIMATED SURPLUS/(DEFICIT)
as of June 30, 2007

	Total Annual Budget	Amount Expended through June 30, 2007	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Remaining Annual Budget	% Expended to Date		Estimated Year End Surplus/(Deficit) Manually Computed
						Current Year	Prior Year	
DEPT OF PUBLIC WORKS	\$122,960,438	\$124,677,218	(\$1,716,780)	-1.40%	(\$5,063,698)	101.40%	105.91%	(\$5,000,000)
FINANCE	34,534,072	30,790,895	3,743,177	10.84%	2,640,574	89.16%	83.99%	2,600,000
FIRE	169,410,916	180,148,310	(10,737,394)	-6.34%	(10,853,081)	106.34%	110.96%	(10,800,000)
HEALTH	28,110,332	22,886,868	5,223,464	18.58%	4,400,982	81.42%	91.32%	4,400,000
POLICE	398,194,196	396,674,833	1,519,363	0.38%	(12,111)	99.62%	116.06%	0
PUBLIC LIGHTING	66,218,188	61,930,984	4,287,204	6.47%	954,986	93.53%	118.46%	900,000
RECREATION	19,510,478	20,772,918	(1,262,440)	-6.47%	(2,910,366)	106.47%	115.77%	(2,900,000)
TOTAL	838,938,620	837,882,026	\$1,056,594	0.13%	(\$10,842,714)	99.87%	111.20%	(\$10,800,000)

NOTE: Fringe Benefits (entire General Fund, excluding pensions) are estimated to surplus/deficit in the amount of (\$0).

PART I
GENERAL FUND
MAJOR SOURCES OF REVENUES AND ESTIMATED SUPRLUS/DEFICIT
at June 30, 2007
Prepared by the City Council Fiscal Analysis Division

Column Calculation	B	C	D C x %	E	F E - D	G F / D	H C - E	I E / C	J	K
	Total Annual Budget	Total Amended Budget	Budget for Report Period 100.0%	Collected through June 30, 2007	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Remaining Annual Budget	% Collected to Date Current Year	Prior Year	Surplus/(Deficit) Estimate
Municipal Income Tax	\$271,405,000	\$271,405,000	\$271,405,000	\$299,922,995	\$28,517,995	10.51%	(28,517,995)	110.51%	105.79%	\$6,500,000
Current Year Property Tax	173,959,033	176,459,033	176,459,033	180,873,962	4,414,929	2.50%	(4,414,929)	102.50%	100.04%	\$12,400,000
Utility Users' Tax	56,000,000	56,000,000	56,000,000	55,263,176	(736,824)	-1.32%	736,824	98.68%	109.03%	(\$736,824)
State Equity Package										
Historical	\$0	\$0	\$0	\$0	\$0	#DIV/0!	\$0	#DIV/0!	26.01%	\$0
Zoological	0	0	0	327,094	327,094	#DIV/0!	(327,094)	#DIV/0!	41.54%	\$327,094
Total	\$0	\$0	\$0	\$327,094	\$327,094	#DIV/0!	(\$327,094)	#DIV/0!	38.36%	\$327,094
State Revenue Sharing										
Sales Tax - Constitutional	\$66,000,000	\$66,000,000	\$66,000,000	\$63,423,737	(\$2,576,263)	-3.90%	2,576,263	96.10%	96.79%	(\$2,576,263)
Sales Tax - Statutory	216,559,208	216,559,208	216,559,208	207,680,619	(\$8,878,589)	-4.10%	8,878,589	95.90%	99.09%	(\$8,878,589)
Total	\$282,559,208	\$282,559,208	\$282,559,208	\$271,104,356	(\$11,454,852)	-4.05%	\$11,454,852	95.95%	98.55%	(\$11,454,852)
Grand Total	\$783,923,241	\$786,423,241	\$786,423,241	\$807,491,583	\$21,068,342	2.68%	(\$21,068,342)	102.68%	102.06%	\$7,035,418
Casino Gaming Fee	\$184,850,000	\$184,850,000	\$184,850,000	\$179,763,570	(\$5,086,430)	-2.75%	\$5,086,430	97.25%	100.24%	(\$5,200,000)

PART II
GENERAL FUND APPROPRIATIONS
(including fringe benefits)
ESTIMATED SURPLUS/(DEFICIT)
at June 30, 2007

Prepared by the City Council Fiscal Analysis Division

Column Calculation	B	C	D C x %	E	F D - E	G F / D	H	I C-E-H	J E/C	K	K
	Total Annual Budget	Total Amended Budget	Budget for Report Period 100.0%	Amount Expended through June 30, 2007	Better/(Worse) than Budget Year to Date	% Variance Better/(Worse) than Budget Year to Date	Encumbrances at June 30, 2007	Remaining Annual Budget	% Expended to Date Current 105.79%	Prior Year	Estimate Calculated Surplus/(Deficit)
DEPARTMENT OF PUBLIC WORKS	\$120,628,362	\$122,960,438	\$122,960,438	124,680,350.81	(\$1,719,913)	98.10%	3,346,918	(\$5,066,831)	101.40%	103.20%	(\$5,067,000)
FINANCE	34,033,935	34,534,072	34,534,072	30,924,194.34	\$3,609,878	10.45%	1,166,062	2,443,816	89.55%	84.02%	\$2,440,000
FIRE	170,833,522	169,410,916	169,410,916	180,167,561.00	(\$10,756,645)	-6.35%	115,687	(10,872,332)	106.35%	110.92%	(\$10,870,000)
HEALTH	27,693,780	28,110,332	28,110,332	22,894,185.98	\$5,216,146	18.56%	822,481	4,393,664	81.44%	91.39%	\$4,400,000
POLICE	394,799,994	398,194,196	398,194,196	396,695,937.25	\$1,498,259	0.38%	1,531,474	(33,215)	99.62%	115.90%	(\$33,000)
PUBLIC LIGHTING	63,468,819	66,218,188	66,218,188	61,941,237.75	\$4,276,950	6.46%	3,332,218	944,732	93.54%	110.38%	\$945,000
RECREATION	17,767,981	19,510,478	19,510,478	20,783,622.56	(\$1,273,145)	-6.53%	1,647,926	(2,921,071)	106.53%	115.94%	(\$2,920,000)
	\$829,226,393	\$838,938,621	\$838,938,621	\$838,087,090	\$851,531	0.10%	11,962,767	(11,111,236)	99.90%	110.03%	(\$11,105,000)